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TO RUEHC/SECSTATE WASHDC PRIORITY 5213  
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RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY  
RUEAIIA/CIA WASHDC PRIORITY  
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY  
RHEFDIA/DIA WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 MAPUTO 000396

SIPDIS

SENSITIVE  
SIPDIS

AF/S - HTREGER  
EB/IFD/OIA  
STATE PASS USTR FOR P.COLEMAN  
STATE PASS OPIC

E.O. 12958: N/A  
TAGS: [EAGR](#) [ETRD](#) [EINV](#) [MZ](#)  
SUBJECT: U.S. TOBACCO COMPANY DEPARTING MOZAMBIQUE OVER  
COMMERCIAL DISPUTE

REF: 05 MAPUTO 1481

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Sensitive but Unclassified - Not for Internet Distribution.

¶1. (SBU) Summary: American loose-leaf tobacco merchant Alliance One International has decided to discontinue all operations in Mozambique. The withdrawal comes as the result of the GRM's decision in August 2005 to seize Alliance One's most profitable Mozambican concession and grant it to another company, U.S. tobacco company Universal Leaf. Alliance One believes the GRM's actions are in violation of the concession agreement and Mozambican law, and will likely file an insurance claim. The GRM's posture in the dispute raises additional concerns about the Mozambican business environment. End Summary.

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Pulling Out  
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¶2. (SBU) On March 15 Colin Armstrong (protect), Mozambique country director for the tobacco firm Alliance One International, an American company, called on the Ambassador to inform her that Alliance One would be ceasing operations. According to Armstrong, Alliance One reluctantly came to the decision to close its Mozambican operations in response to the GRM's decree, made in August of 2005, under which it seized Alliance One's concession in Chifunde district, Tete province, and awarded it to Alliance One's rival, another American loose-leaf tobacco company, Universal Leaf (see reftel for details). Alliance One maintains the cancellation of the concession violated its concession agreement the GRM and was in violation of Mozambican law. Armstrong and the company's lawyer told the Ambassador they did not believe that Universal Leaf was directly behind the cancellation of its concession, however.

¶3. (SBU) According to Armstrong, Alliance One did not take this decision lightly. The company spent eight months attempting to convince central government and provincial officials to reverse course, including meeting with the Governor of Tete, the Minister of Agriculture and with close advisors to President Guebuza. (As noted in reftel, it is

still not clear whether ultimate responsibility for the action lies with the provincial governor or the Minister of Agriculture.) On several occasions Alliance One informed officials that if the Chifunde concession were not returned, the tobacco company would be forced to exit Mozambique. On March 20 Alliance One's Managing Director for Africa, Mike Roberts (protect), in speaking with Poloff explained that while Alliance One was leaving Mozambique with a heavy heart, without the Chifunde concession its operations in Mozambique simply were not profitable.

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Consequences  
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¶4. (SBU) Alliance One purchased tobacco leaf from 50,000 Mozambican small farmers. Some 15,000 tobacco farmers in the Chifunde concession will be able to sell to Universal Leaf. However, with Alliance One's departure the remaining 35,000 farmers - mainly in Niassa and Zambezia provinces - will find it difficult, if not impossible, according to Armstrong, to sell their product. Many of Alliance One's 550 direct employees may be unemployed, as well.

¶5. (SBU) In a March 22 letter to the SEC, Alliance One estimated closure of its operations in Mozambique will cost the company USD 6 million. According to Alliance One's legal representative here, the company is in the process of filing an insurance claim against the Mozambican government and is considering whether to pursue damages under the US-Mozambique Bilateral Investment Treaty (which only entered into force in March 2005). He speculated that the insurance claim, at least, if successful would negatively impact Mozambique's credit rating.

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Comment  
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¶6. (SBU) It is unclear to what extent President Guebuza and his advisors are aware of the downside for Mozambique's reputation of the taking of the concession and the departure of a major U.S. investor. When the Ambassador at one point informed President Guebuza that Alliance One had requested a meeting with the Embassy, Guebuza indicated that he was aware of the issue but said his advisors were telling him that the company had a problematic record in Tete province, especially on labor issues. We understand that Agriculture Minister Mandlate made a last-minute appeal in a letter on March 20 asking Alliance One to stay and negotiate, but the GRM never pressed further and by then it probably was too late. It is not clear what impact a possible insurance claim or rating downgrade would have in Maputo. Nor is it clear whether the concession seizure was a one-off hiccup or a sign of increased government willingness to arbitrarily act against major business investments, or at least not to curb such actions by provincial officials. In public statements President Guebuza continues to stress his government's support for an independent private sector and a transparent business environment that encourages foreign investment.  
La Lime